

**REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 SAINT CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts was engaged to audit the fee account activities of the Whitley County Sheriff's Office for the year ended December 31, 2008 and we have issued a disclaimer of opinion.

Based on our assessment of audit risk, we determined the risk of fraud to be too high, and we were unable to apply other procedures to overcome this risk. In addition, the Sheriff's office had serious weaknesses in the design and operation of its internal control procedures and accounting functions.

Report Comments:

- 2008-1 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- 2008-2 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight
- 2008-3 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner
- 2008-4 The Sheriff Had A Known Deficit Of \$4,426 In His Official 2008 Fee Account
- 2008-5 The Sheriff Should Submit Known Excess Fees To Fiscal Court
- 2008-6 The Sheriff Should Adequately Document Payroll Expenditures
- 2008-7 The Sheriff Should Submit An Amended Report Of Employee Wages To The Appropriate Authorities
- 2008-8 The Sheriff Did Not Maintain Proper Documentation For Receipts And Disbursements Of The Drug And Alcohol Account
- 2008-9 The Sheriff Should Not Expend Seized Assets Before Being Forfeited By The Court
- 2008-10 The Sheriff Did Not Take Corrective Action For Prior Year Findings
- 2008-11 The Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions
- 2008-12 The Sheriff Should Provide Adequate Oversight For All Fuel Purchases Made With Credit Cards
- 2008-13 Other Matters Of Non-Compliance

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Whitley County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff.

As further explained in the accompanying comments and recommendations, the Whitley County Sheriff did not maintain adequate accounting records of fee account revenues and expenditures for the 2008 calendar year. The Sheriff's financial records do not permit the application of other auditing procedures to the fee account revenues and expenditures. Furthermore, significant discrepancies in the Sheriff's records identified during the engagement and lack of adequate internal controls resulted in a high level of audit risk. In addition, we were not provided with a management representation letter.

Since the Whitley County Sheriff did not maintain adequate accounting records, audit risk for this engagement was high as discussed in paragraph two, and because we did not receive the required representation letter and we were not able to apply other auditing procedures to satisfy ourselves as to the validity of fee account revenues and expenditures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Sheriff's statement of revenues, expenditures and excess fees - regulatory basis for the 2008 calendar year.

We were engaged to audit the financial statement referred to above for the purpose of forming an opinion on the financial statement. The Schedule of Excess Of Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. As discussed in the paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the financial statement of the Sheriff. Similarly, we are unable to express and do not express an opinion on the Schedule of Excess Fees of Liabilities Over Assets in relation to the financial statement.

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2009 on our consideration of the Whitley County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley County Fiscal Court

We also present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-1 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- 2008-2 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight
- 2008-3 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner
- 2008-4 The Sheriff Had A Known Deficit Of \$4,426 In His Official 2008 Fee Account
- 2008-5 The Sheriff Should Submit Known Excess Fees To Fiscal Court
- 2008-6 The Sheriff Should Adequately Document Payroll Expenditures
- 2008-7 The Sheriff Should Submit An Amended Report Of Employee Wages To The Appropriate Authorities
- 2008-8 The Sheriff Did Not Maintain Proper Documentation For Receipts And Disbursements Of The Drug And Alcohol Account
- 2008-9 The Sheriff Should Not Expend Seized Assets Before Being Forfeited By The Court
- 2008-10 The Sheriff Did Not Take Corrective Action For Prior Year Findings
- 2008-11 The Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions
- 2008-12 The Sheriff Should Provide Adequate Oversight For All Fuel Purchases Made With Credit Cards
- 2008-13 Other Matters Of Non-Compliance

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Whitley County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 20, 2009

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

Federal Contracts:

U.S. Corps of Engineers	\$	3,000		
U.S. Department of Forestry		4,999	\$	7,999

State - Kentucky Law Enforcement Foundation Program Fund	39,566
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State Fees For Services:

Finance and Administration Cabinet	36,229			
Cabinet For Human Resources		20,711		56,940

Circuit Court Clerk:

Fines and Fees Collected	1,520			
Court Ordered Payments		25		1,545

Fiscal Court

Fiscal Court Allowance	404,573			
Printing Tax Bills		2,747		
Miscellaneous Reimbursements		10,907		
Accident/Vehicle Repairs		18,985		
Transports		24,419		461,631

County Clerk - Delinquent Taxes	5,032
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Commission On Taxes Collected	314,106
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Fees Collected For Services:

Auto Inspections	9,415			
Accident and Police Reports		2,384		
Serving Papers		77,839		
Carrying Concealed Deadly Weapon Permits		5,865		
School Resource Officer		26,156		
Transporting Prisoners		2,982		

Other:

Tax Penalty - Advertising \$5	9,822			
Tax Penalty - 10% Fee		37,728		
Miscellaneous		1,095		173,286

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Revenues (Continued)

Interest Earned		\$	7,571
Borrowed Money:			
State Advancement	\$	140,000	
Bank Notes		<u>152,500</u>	<u>292,500</u>
Total Revenues			1,360,176

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputy's Gross Salaries	404,122
KLEFPF Gross Salaries	30,062
Contract Labor	4,599

Employee Benefits-

Employer's Share Social Security	37,574
Employer's Share Retirement	16,158
Employer's Share Hazardous Duty Retirement	111,634
Employer Paid Health Insurance	71,867
Employer Paid Dental Insurance	3,540

Contracted Services-

Advertising	657
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Materials and Supplies-

Office Materials and Supplies	5,722
Uniforms	6,223
Gun & Supplies	1,812
Radio, Camera & Supplies	5,898
Evidence Supplies	1,513

Auto Expense-

Gasoline	92,173
Maintenance and Repairs	47,608

Other Charges-

Dues	1,594
Postage	3,607
Bond	1,218
Storage	840
Transport Expenses	11,045

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges- (Continued)

Cell Phones	\$	3,697	
Prisoner Blood Kits		375	
Summons Other Counties		44	
Miscellaneous		15,269	
Capital Outlay-			
Vehicle Equipment		25,355	
Vehicles		24,800	\$ 929,006

Debt Service:

State Advancement	140,000	
Notes	152,500	
Bank Note Fees	1,500	
Interest	5,323	299,323

Total Expenditures 1,228,329

Less: Disallowed Expenditures

Bank Overdraft Charges	1,034	
Visa Finance Charges	634	
Visa Late Payment Fees	117	
I.R.S. Penalties & Interest	513	
Dues for Former Employee	35	2,333

Total Allowable Expenditures \$ 1,225,996

Net Revenues 134,180

Less: Statutory Maximum 84,594

Excess Fees 49,586

Less: Training Incentive Benefit 3,525

Balance Due Fiscal Court at Completion of Audit for 2008 Excess Fees \$ 46,061

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Whitley County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Whitley County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Bank Notes

- A. The Sheriff received a bank loan of \$75,250 on March 24, 2008 for the purpose of Operating Expense. The terms of the loan agreement required one (1) payment of \$76,716 on July 24, 2008. The Sheriff renewed the note on July 24, 2008 incurring an additional \$250 documentation fee. The Sheriff paid \$75,500 of principal and \$1,664 of interest on December 9, 2008.
- B. The Sheriff received a bank loan of \$55,250 on May 7, 2008 for the purpose of operating expense. The terms of the loan agreement required one (1) payment of \$55,788 on July 7, 2008. The Sheriff renewed the note on July 7, 2008 and July 24, 2008 incurring an additional \$500 in documentation fees. The Sheriff paid \$55,750 of principal and \$1,390 of interest on January 8, 2009.
- C. The Sheriff received a bank loan of \$21,000 on July 29, 2008 for the purpose of police cruisers & equipment. The terms of the loan agreement required one (1) payment of \$21,776 on December 31, 2008. The Sheriff paid \$21,250 of principal and \$265 of interest on October 15, 2008.

Note 5. Drug and Alcohol Account

Under the terms mandated by the Commonwealth of Kentucky, the Whitley County Sheriff received proceeds from the confiscation, surrender or sale of real and personal property involved in drug related convictions. The beginning balance as of January 1, 2008 was \$8,938. The Sheriff received and expended \$12,875 and \$14,398, respectively. Additionally, this account has uncollected receivables of \$1,562 and unpaid liabilities of \$8,631. The book balance for this account was \$346 as of December 31, 2008.

Note 6. Federal Contracts

- A. The U.S. Department of Agriculture, Forest Service has an agreement to reimburse the Sheriff for forest patrol service provided at the Daniel Boone National Forest. The Sheriff received reimbursements totaling \$4,999 in calendar year 2008.
- B. The U.S. Army Corps. of Engineers has an agreement to reimburse the Sheriff for patrol service at the Laurel River Lake. The Sheriff received reimbursements totaling \$3,000 in calendar year 2008.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS – REGULATORY BASIS

December 31, 2008

Assets

Cash in Bank		\$	49,927
2007 Uncollected Receivables			81,703
2008 Deposits in Transit			52,310
Collected 2008 Receivables			209,505
Uncollected 2008 Receivables:			
Due From 2006 Tax Account:			
2008 Telecom Payments	\$	546	
Due From 2007 Tax Account:			
2008 State Payments		15,052	
2008 Circuit Court Clerk Restitution		25	
2008 Fee Payments		14,523	
2008 Commission Refunded Twice		52,141	
2008 Tax Acct Returned Check Fees		292	
2008 Sheriff's 10% Tax Penalty		2,782	
2008 Sheriff's \$5 Advertising Fee		412	
2008 Tax Commission		4	
Due From 2008 Tax Account:			
2008 Commissions		1,590	
Due From 2009 Fee Account			
2008 Transport Payment		447	87,814
Total Assets			481,259

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS – REGULATORY BASIS
 December 31, 2008
 (Continued)

Liabilities

Paid Obligations:

2008 Outstanding Checks	\$ 5,045
2008 Liabilities Paid After December 31, 2008	<u>298,472</u>

Total Paid Obligations	<u>\$ 303,517</u>
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Unpaid Obligations:

Due to 2006 Tax Account -	
2007 Overpayment of School Tax Commissions	872
Due to 2007 Tax Account -	
2008 Overpayment of Interest	2,633
Due to 2009 Fees-	
2008 Tax Commissions	7,641
2009 Telecom Payment	273
Due To Internal Revenue Service -	
Employer Share of Unreported Wages	888
Due Whitley Fiscal Court-	
2007 Excess Fees	134,428
2008 Excess Fees	<u>46,061</u>

Total Unpaid Obligations	<u>192,796</u>
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Total Liabilities	<u>\$ 496,313</u>
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Total Fund Deficit as of December 31, 2008	<u><u>\$ (15,054)</u></u>
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Note: The Sheriff used the same bank account for 2007 and 2008 fees. Therefore, the fund deficit above is cumulative.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We were engaged to audit the statement of revenues, expenditures, and excess fees- regulatory basis of the Whitley County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated November 20, 2009, wherein we disclaimed an opinion on the financial statement because the Sheriff failed to maintain adequate accounting records and lacked adequate internal controls resulting in a high audit and fraud risk. In addition, we were not provided with a management representation letter. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Whitley County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2008-1, 2008-2, 2008-3, 2008-4, 2008-5, 2008-6, 2008-7, 2008-8, 2008-9, 2008-10, 2008-11, and 2008-12 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Whitley County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations. These noncompliances are reported in comments 2008-1, 2008-5, 2008-6, 2008-7, 2008-9, and 2008-13.

This report is intended solely for the information and use of management, the Whitley County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 20, 2009

COMMENTS AND RECOMMENDATIONS

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

FINANCIAL STATEMENT FINDINGS:

2008-1 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year

The Sheriff did not maintain accurate financial records for the 2008 fee account. In addition, the Sheriff deposited 2008 fee deposits to the 2007 Tax Account. During our testing of receipts and disbursements, we noted the following known errors:

- \$29,600 of calendar year 2008 fee receipts was deposited to the 2007 tax account. This includes \$15,052 of state payments, \$13,030 served papers, \$25 Circuit Court Clerk, \$84 accident reports, \$65 carrying concealed deadly weapons permits, \$855 transporting mental patients, \$10 vehicle inspections and \$479 miscellaneous (such as copy work).
- Interest earned on the 2008 fee account for the period January through December totaling \$519 was not posted to the Sheriff's receipts ledger.
- One court ordered restitution payment of \$25 was not recorded in the Sheriff's receipts ledger.
- A total of \$1,034 in payments to the bank for overdraft fees were not posted to the Sheriff's disbursements ledger.
- Two state telecom payments, totaling \$546 were not transferred from the 2006 tax account and were not posted to the Sheriff's 2008 receipts ledger. Additionally, one 2009 telecom payment of \$273 was deposited to the Sheriff's 2008 fee account and was posted to the 2008 receipts ledger in error.
- A total of \$30,785 of receipts for serving papers were deposited to the 2008 fee account but were not posted to the receipts ledger.
- Bank note origination fees of \$1,500 for bank loans were borrowed and repaid but not posted to the Sheriff's receipts or disbursements ledger.
- Employee wages totaling \$11,603 were posted to office supplies and materials. As a result of this, \$11,603 of employee wages were not reported on the employees' W-2 forms and \$888 of employer share of Social Security taxes was not paid. The disbursements ledger was adjusted for this liability.
- One 2008 county payment totaling \$447 for transporting prisoners was received in 2009 and deposited to the 2009 fee account in error.
- Tax commissions collected in 2009, totaling \$7,641, were deposited into the 2008 fee account instead of the 2009 fee account and were posted to the 2008 receipts ledger.
- A school commission deposit error totaling \$52,141 was corrected twice resulting in \$52,141 due from the 2007 tax account to the 2008 fee account.
- Additional tax commissions, sheriff's ten percent (10%) add on fees, sheriff's advertising fees, and returned check fees totaling \$3,490 were not transferred to the 2008 fee account and were not recorded on the 2008 fee account receipts ledger.

Lack of any controls over the operations of the office and a lack of or poor oversight by the Sheriff resulted in numerous errors noted on the financial records.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2008-1 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year (Continued)

Because internal controls do not exist to prevent and/or detect these types of errors and because the Sheriff did not implement any type of oversight or control, these types of errors are allowed to occur. Reports remitted to external agencies, such as the Department for Local Government, are misleading, calculations for excess fees due fiscal court are erroneous and calendar year receipts are erroneously used in other years. In addition, taxpayer dollars are at greater risk for misappropriation.

KRS 134.160(2) states, "The sheriff shall keep an accurate account of all moneys received by him, showing the amount, the time when and the person from whom received, and on what account. He shall also keep an accurate record of all disbursements made by him, showing the amount, to whom paid, the time of payment, and on what account. He shall so arrange and keep his books that the amounts received and paid on account of separate and distinct appropriations shall be exhibited in separate and distinct accounts."

We recommend the Sheriff immediately implement controls and oversight over his office to assure errors of this magnitude are prevented in a timely manner and maintain accurate financial records in the future as required by KRS 134.160(2). We further recommend that all fee receipts be deposited to the appropriate year accounts. These steps would help to ensure that an accurate financial statement is prepared at year-end. We also recommend the Sheriff transfer the following: \$7,914 from 2008 fee account to 2009 fee account, \$546 from 2006 tax account to 2008 fee account, \$447 from 2009 fee account to 2008 fee account, \$85,231 from 2007 tax account to the 2008 fee account, and \$1,590 from the 2008 tax account to the 2008 fee account for the known erroneous deposits stated above.

Sheriff's Response: The Sheriff did not respond.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2008
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2008-2 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight

During the review of receipts and bank deposits, we noted that Sheriff's office personnel only listed the total amount of checks deposited on the bank deposit tickets that were taken to the bank. As a result, auditors obtained deposit details from the bank for all deposits. The deposit details provide copies of the cancelled checks and the cash amounts that make up the deposits. We found several discrepancies. The comparison listed below is one example.

The Sheriff's original deposit ticket dated August 22, 2008 stated "checks \$14,518.20" and "cash \$327.04". However, the copy provided to the auditors included a detailed listing of receipts. Auditors compared the copy of the deposit ticket provided by the Sheriff's office to the deposit detail obtained from the bank and noted the following differences:

<u>Financial Statement Category</u>	<u>Per Sheriff's Copy Of Deposit Ticket</u>	<u>Per Bank Deposit Detail</u>
Cash	\$ 0.00	\$ 327.04
Summons	1,840.00	1,925.00
Inspections	155.00	20.00
Accident Report	110.00	40.00
CCDW	125.00	75.00
Wrecked Vehicle (reimbursement)	4,525.00	4,525.00
Fiscal Court Transport	3,167.92	3,167.92
Comm. Of KY-KLEFPF	3,458.20	0.00
Comm. of KY-Bailiff	1,256.00	3,524.00
Comm. of KY-Transport	208.12	1,232.28
Comm. Of KY-Summons	0.00	9.00
Total	<u>\$ 14,845.24</u>	<u>\$ 14,845.24</u>

Subsequent investigation found that Commonwealth of Kentucky checks totaling \$4,922.32 listed on the Sheriff's copy (see above) of the deposit ticket were actually deposited into the 2007 Tax Account on June 25th and July 15th of 2008.

The Sheriff lacked controls over the deposit process and did not provide oversight in this area. As stated in another comment, the Sheriff had known undeposited receipts of \$2,093 which contributed to the known deficit of \$4,426 in his 2008 official fee account. Had the Sheriff more closely monitored deposits, and required his personnel to list checks individually on the bank deposit ticket, these types of errors and irregularities may have been detected and corrected promptly. As cash is the asset most vulnerable to misappropriation or theft, any official is expected to provide adequate safeguards over this asset.

We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily into the correct account and accurately reflect what is deposited. In addition, deposits should include all receipts accepted by the Sheriff's office for that day to comply with KRS 68.210.

Sheriff's Response: The Sheriff did not respond.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2008-3 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner

During the test of daily receipts, we noted that deposits were not made daily and checkout sheets were not prepared daily. Auditors noted the following:

- The checkout sheet for the period of November 18 through November 26, 2008 included seven (7) days of receipts. Deposits for this checkout sheet cleared the bank on November 21st, December 1st, and December 8th. This is a three-to-fourteen (3-to-14) business day difference between the dates receipts were received and the dates they were deposited. The receipt copies attached to this checkout sheet and the receipts ledger indicated that two (2) state checks totaling \$472 were included in the deposits but actually were not. In addition, these deposits included eleven (11) \$40 checks for serving papers that were not included on the checkout sheet or receipts ledger.
- The checkout sheet for the period of March 19 through March 26, 2008 included six (6) days of receipts. Deposits for this checkout sheet cleared the bank on March 25th and April 1st. The March 25th deposit only included bank loan proceeds. Other fee receipts were deposited between three and six (3 and 6) business days after they were received.
- Receipt copies were not always attached to the correct checkout sheets. Six (6) fee checks included in the above mentioned deposits corresponded to receipts attached to prior checkout sheets.

During the confirmation of State Fee receipts the auditor noted a total of \$15,052 of receipts were posted to the receipts ledger but deposited into the 2007 Tax Account.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds are stated on page sixty-one (61) of the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual which include deposits made intact daily. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to theft.

We recommend the Sheriff implement controls over the deposit process to ensure compliance with KRS 68.210 by depositing receipts intact daily.

Sheriff's Response: The Sheriff did not respond.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2008-4 The Sheriff Had A Known Deficit of \$4,426 In His Official 2008 Fee Account

Because of known undeposited receipts of \$2,093 and disallowed expenditures of \$2,333, the Sheriff had a known deficit of \$4,426 for calendar year 2008. Since the Sheriff used the 2007 fee bank account for 2008 fee receipts, this led to a known cumulative deficit of \$15,054 [\$4,426 (2008) + \$10,628 (2007)]. Auditors were unable to determine a complete amount because of a lack of adequate recordkeeping (as noted in a previous comment). If record keeping had been adequate, the deficit would likely be more. When auditors compared the Sheriff's receipts ledger to the bank deposits, \$2,093 of receipts paid by individuals for services rendered were not deposited into the fee account. In addition, the Sheriff spent a total of \$2,333 on expenditures deemed unallowable expenditures per Funk v. Milliken, 317 S.W.2d 499 (KY1958). These included:

- Finance charges, and late payment charges of \$751
- Overdraft charges of \$1,034 were paid on the 2008 official fee account
- Internal Revenue Service penalties for late payments of \$513
- Dues paid for a former employee of \$35

When receipts go undeposited and monies are spent on disallowed expenditures, the reports submitted by the Sheriff for external purposes are inaccurate. Additionally, other vital services that could be offered by the Sheriff's office are not offered and, ultimately, the Sheriff is required to deposit personal funds to cover these items.

As in any office, the Sheriff is expected to deposit all monies paid to his office and prepare correct reports in a timely manner. He is also expected to expend his fee account monies on allowed expenditures [see Funk v. Milliken, 317 S.W.2d 499 (KY1958)].

We recommend the Sheriff deposit personal funds of \$4,426 to cover the known 2008 deficit and \$10,628 to cover the known 2007 deficit in the official fee account. We further recommend the Sheriff take steps to ensure all monies received by his office are immediately deposited into an official fee account and that all monies expended are for allowable expenditures only.

Sheriff's Response: The Sheriff did not respond.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
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For The Year Ended December 31, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2008-5 The Sheriff Should Submit Known Excess Fees To Fiscal Court

On March 17, 2009, the Sheriff presented his annual financial statement to the fiscal court for approval. Excess fees per that statement were less than \$1. However, based on the available records, known excess fees of \$46,061 are due the fiscal court for calendar year 2008. Auditors are unable to determine the precise amount because of the lack of adequate recordkeeping in the Sheriff's office. Had adequate records been available, excess fees may have changed and possibly increased.

As has been stated in numerous findings, receipts of the Sheriff's office are often not deposited into the correct account and sometimes not deposited at all. Recordkeeping is inadequate and bank accounts are commingled throughout the year.

We recommend the Sheriff pay known excess fees of \$46,061 to the fiscal court and, in the future, maintain adequate records so an accurate determination of excess fees can be made.

Sheriff's response: The Sheriff did not respond.

2008-6 The Sheriff Should Adequately Document Payroll Expenditures

During the test of payroll, auditors noted that two (2) employees were paid a total of \$2,496 for unused calendar year 2007 vacation time. The Whitley County Personnel Policy states that unused vacation and sick time is to be paid the first pay period of the following year (i.e., 2007 unused to be paid in 2008). However, the sheriff's office could not provide a complete set of time sheets or other supporting documentation to support the assertion that the employees had not used the vacation time in 2007.

KRS 337.320 requires the Sheriff to keep a record of the amount paid each employee each pay period, the hours worked each day and each week by each employee, and such other information as may be required. The State Local Finance Officer, given the authority by KRS 68.210, requires all expenditures to have adequate supporting documentation. Any expenditure not adequately supported could be subject to being disallowed.

As in any office, accurate employee records are expected to be maintained for proper reporting to external agencies such as the IRS and the Kentucky Retirement System. We recommend the Sheriff comply with the above statutes by keeping time sheets or time cards for all employees. We further recommend the Sheriff keep a record of vacation hours used and available for each employee.

Sheriff's Response: The Sheriff did not respond.

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COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2008-7 The Sheriff Should Submit An Amended Report Of Employee Wages To The
Appropriate Authorities

During the test of expenditures, we noted that the Sheriff under reported the earned income for two (2) employees by a total of \$11,603. The Sheriff posted these payments as 'Office Materials and Supplies' on his disbursements ledger and subsequent financial statement. Therefore, these wages were not reported as earned income on the employee's Federal Wage and Tax Statement (form W-2).

We recommend that the Sheriff submit an amended employee Federal Wage and Tax Statement (form W-2) for these employees. We also recommend the Sheriff submit an amended summary of total wages paid to the IRS, the Kentucky Revenue Department and the Whitley County Occupational Tax Office. We have listed the employer share of Social Security totaling \$888 for these unreported wages as an unpaid liability of the 2008 fee account. Any accrued penalties or interest are the responsibility of the Sheriff personally.

Sheriff's Response: The Sheriff did not respond.

2008-8 The Sheriff Did Not Maintain Proper Documentation For Receipts And Disbursements
Of The Drug And Alcohol Account

During 2008, the Sheriff did not maintain adequate documentation for receipts and expenditures from the drug account. Although the Sheriff maintained a handwritten log explaining the purposes of the drug account expenditures, no signed documentation was maintained to show that the checks cashed were actually given to the informants. In addition, the Sheriff's handwritten log did not include explanations for \$700 made payable to the Sheriff in two separate checks.

Review of deposits made into the 2007 Tax Account found one \$1,400 payment of a "drug fund sponsorship fee" that was not included on the Sheriff's receipts ledger for the drug and alcohol account.

The Sheriff did not maintain minimum documentation as adopted by the Kentucky Sheriff's Association. Because of this, we have disallowed the \$700 of undocumented drug and alcohol account disbursements discussed above. As in any office, officials are expected to maintain documentation on receipts that come into their office, as well as any disbursement made from their office. In a separate case the Sheriff seized and deposited \$538 that he subsequently refunded from personal funds.

We recommend the Sheriff deposit personal funds of \$162 (\$700 disallowed less \$538 refunded from personal funds) into his drug and alcohol account to reimburse the undocumented expenditures and transfer \$1,400 from the 2007 tax account to the drug and alcohol account. We further recommend the Sheriff implement the guidelines and forms to be utilized for Sheriffs' record keeping systems adopted by the Kentucky Sheriffs Association.

Sheriff's Response: The Sheriff did not respond.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2008
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2008-9 The Sheriff Should Not Expend Seized Assets Before Being Forfeited By The Court

On February 8, 2008, the Sheriff seized \$538 in cash in a drug-related arrest and these funds were deposited to the Sheriff's drug and alcohol account. This case was dismissed on May 2, 2008, and the confiscated funds had to be returned to the defendant. However, at that time, there were not sufficient funds in the Sheriff's drug and alcohol account to make the refund because the Sheriff had expended the confiscated funds even though the case had not been adjudicated, and these funds had not been forfeited to the Sheriff's office. On June 25, 2008 the Sheriff purchased a \$538 money order from personal funds in order to refund the defendant's seized funds.

Due to a lack of controls over record keeping in the Sheriff's office and lack of any oversight by the Sheriff, this situation was allowed to occur.

Per KRS 218A.415(2)(a) and (b), the Sheriff may take custody of and remove property seized to an appropriate location for disposition in accordance with the law. Once disposition is forfeiture by court order, then the Sheriff may retain the assets for official use or sell that which is not required to be destroyed by law.

We recommend the Sheriff comply with KRS 218A.415 by segregating all seized assets and ensuring they remain on deposit until forfeited by the court to the Sheriff's department. This can be accomplished by putting seized funds into a separate bank account to be transferred to the drug and alcohol account for use only after being so ordered by the court.

Sheriff's Response: The Sheriff did not respond

2008-10 The Sheriff Did Not Take Corrective Action For Prior Year Findings

As of August 26, 2009 the Sheriff has not taken corrective action for prior year findings. In the calendar year 2007 Fee Audit, auditors recommend the Sheriff transfer the following monies due to being deposited into the wrong calendar year account:

- \$55,342 from the 2006 fee account to the 2007 fee account
- \$22,991 from the 2006 tax account to the 2007 fee account
- \$273 from the 2005 tax account to the 2007 fee account

Auditors also recommend the Sheriff deposit personal funds of \$10,628 to eliminate the deficit in the 2007 fee account (as noted in a previous comment) and to pay the Fiscal Court \$134,428 for excess fees.

Additionally, auditors recommend the Sheriff deposit personal funds of \$3,240 for disallowed drug fund expenditures and recommended the Sheriff pay \$5,407 to the Office of the Attorney General for the County Attorney's portion of the sale of forfeited assets.

We recommend the Sheriff take corrective action for prior year findings.

Sheriff's Response: The Sheriff did not respond.

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(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2008-11 The Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions

A lack of adequate segregation of duties exists over all accounting functions. During review of internal controls, we noted that the Sheriff's bookkeeper is responsible for opening mail, receiving and recording cash, preparing daily checkout sheets and making daily bank deposits, writing disbursement checks, posting receipts and disbursements to the ledgers, reconciling bank records to the ledgers and preparing monthly financial reports.

Limited budget places restrictions on the number of employees the Sheriff can hire. When faced with limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. In addition, the Sheriff did not have any type of formal administrative policies in place to outline what is expected of the employees within his office.

Additionally, because a lack of segregation of duties existed, and because the Sheriff did not provide strong oversight over the office, the following occurred:

- The Sheriff Did Not Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight
- The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner
- The Sheriff Had A Known Deficit of \$4,426 In His Official 2008 Fee Account
- The Sheriff Did Not Adequately Document Payroll Expenditures
- The Sheriff Did Not Submit An Amended Report Of Employee Wages To The Appropriate Authorities
- The Sheriff Did Not Maintain Proper Documentation For Receipts And Disbursements Of The Drug And Alcohol Account

A segregation of duties over the various accounting functions such as opening mail, recording cash, preparing bank deposits, writing checks, posting transactions to ledger, reconciling bank records to the ledgers and preparing monthly reports or the implementation of strong compensating controls when the number of staff is limited is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the Sheriff segregate the duties involving the opening of mail, depositing of cash disbursing of cash, posting of transactions to the ledgers, reconciling of bank records to the receipts and disbursements ledger and preparing monthly reports. If, due to limited number of staff, it is not feasible to segregate duties, strong oversight over these areas should occur and involve an employee not currently performing any of the functions. The following are examples of controls the Sheriff could implement:

- The Sheriff could periodically recount and deposit cash receipts. This could be documented by initialing the daily checkout sheet and bank deposit ticket.

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FINANCIAL STATEMENT FINDINGS: (Continued)

2008-11 The Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions (Continued)

- The Sheriff could periodically compare the bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. This could be documented by initialing the bank deposit, daily checkout, and receipts ledger.
- All checks should have two (2) signatures, with one being the Sheriff's.
- The Sheriff could examine checks prepared by the bookkeeper and compare to proper documentation. This could be documented by initialing the supporting documentation.
- The Sheriff could review the bank reconciliation and compare the balance to the balance in the check book and to the disbursements ledger. Any differences should be reconciled. This could be documented by initialing the bank reconciliation, checkbook and ledger.
- The Sheriff could receive the bank statements unopened, and review the statements for any unusual items prior to giving them to the person responsible for reconciliations.

We further recommend that the Sheriff adopt a formal administrative policy, which outlines job responsibilities, what is expected of each employee, and the type of documentation that should be maintained for the office.

Sheriff's Response: The Sheriff did not respond.

2008-12 The Sheriff Should Provide Adequate Oversight For All Fuel Purchases Made With Credit Cards

The Sheriff did not provide adequate oversight for all fuel purchases made with credit cards. Although the Sheriff required deputies to retain the original invoices for fuel purchases, we found for the month tested, December 2008, there were forty-two (42) unsubstantiated fuel charges totaling \$1,025. These fuel purchases were made by seven (7) deputies and the Sheriff. The Sheriff's office provided auditors with a copy of a detailed statement from which payment was made. We recommend original invoices be retained for all fuel purchases and that these invoices be compared to monthly statements before payment is made.

Sheriff's Response: The Sheriff did not respond.

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For The Year Ended December 31, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2008-13 Other Matters Of Non-Compliance

The following non-compliances were noted during the engagement:

- The Sheriff did not pay several invoices within 30 days of receipt as required by KRS 65.140.
- The Sheriff did not invest monies seized and forfeited into an interest bearing bank account as allowed by KRS 66.480.
- The Sheriff paid six (6) informants varying amounts, totaling \$1,300 to \$2,200 each, during 2008 and did not issue a Form 1099 to those individuals. Federal regulations require any employer to issue a Form 1099 for non-employees who are paid more than \$600 per calendar year.

The non-compliances listed above are the result of poor management within the Sheriff's office. Employees of the Sheriff's office responsible for the maintenance of the records mentioned above and in previous comments have not been properly supervised to assure compliance with these applicable laws, regulations and external contracts.

By not ensuring compliance with applicable laws, regulations and external contracts, the Sheriff's office may be subject to sanctions by oversight agencies. We recommend the Sheriff comply with the above mentioned laws and regulations and with all laws and regulations required by the Sheriff of a county located within the Commonwealth of Kentucky. If the Sheriff is unsure about any law or regulation in particular, we recommend he seek the advice of the Commonwealth of Kentucky, Department for Local Government.

Sheriff's Response: The Sheriff did not respond.

